



**MTHONJANENI LOCAL MUNICIPALITY  
(REGISTRATION CODE KZN 285)  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

# Mthonjaneni Local Municipality

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

## General Information

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| <b>Legal form of entity</b>                 | South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act No, 117 of 1998)  |
| <b>Mayoral Committee</b><br>Executive Mayor | Cllr S.B.K Biyela (Mayor)<br>Cllr P.E Ntombela (Deputy Mayor)<br>Cllr N.A Mbatha (Speaker)<br>Cllr D.M Dlodla (Exco Member)<br>Cllr M.J Xulu (Exco Member)<br>Cllr E Masikane (Exco Member)  |
| <b>Councillors</b>                          | Cllr B.N Zwane<br>Cllr D.F Xulu<br>Cllr H.K.L Zungu<br>Cllr J Mlawu<br>Cllr M.E Zulu (Deceased - 04 July 2018)<br>Cllr M.N Biyela<br>Cllr M.N Ndlangamandla<br>Cllr M.S Zulu<br>Cllr M.V Mchunu<br>Cllr N.N Nzuza<br>Cllr N.P Shobede<br>Cllr P.S.M Mchunu<br>Cllr S.P Buthelezi<br>Cllr S.V Majola<br>Cllr T.E Mpungose<br>Cllr T.F Zincume<br>Cllr Z.A Sibiya<br>Cllr M.Z Ndlovu (Appointment Date - 18 October 2018)<br>Cllr T.P Ngema (Appointment Date - 01 August 2018)<br>Cllr B.M.T Sibiya |
| <b>Grading of Local Authority</b>           | Grade 1  |
| <b>Accounting Officer</b>                   | Mr P.P Sibiya  |
| <b>Chief Finance Officer (CFO)</b>          | Mr N.M Myeni (Acting)  |
| <b>Business Address</b>                     | 21 Reinhold Street<br>Melmoth<br>3835  |
| <b>Postal Address</b>                       | P.O. Box 11<br>Melmoth<br>3835   |
| <b>Bankers</b>                              | First National Bank  |
| <b>Auditors</b>                             | Auditor General South Africa   |
| <b>Attorneys</b>                            | BMM Attorneys  |

# **Mthonjaneni Local Municipality**

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|                |   |
|----------------|---|
| <b>SA GAAP</b> | <b>South African Statements of Generally Accepted Accounting Practice</b>   |
| <b>GRAP</b>    | <b>Generally Recognised Accounting Practice</b>                             |
| <b>COGTA</b>   | <b>Department of Co-operative Governance and Traditional Affairs</b>        |
| <b>PAYE</b>    | <b>Pay As You Earn</b>  |
| <b>UIF</b>     | <b>Unemployment Insurance Fund</b>  |
| <b>SALGA</b>   | <b>South African Local Government Association</b>                           |
| <b>CIGFARO</b> | <b>Chartered Institute of Government Finance, Audit &amp; Risk Officers</b> |
| <b>MFMA</b>    | <b>Municipal Finance Management Act</b>                                     |
| <b>MIG</b>     | <b>Municipal Infrastructure Grant (Previously CMIP)</b>                     |
| <b>LED</b>     | <b>Local Economic Development</b>   |

## **Mthonjaneni Local Municipality**

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

### **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is partly dependent on the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Mthonjaneni Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in the note titled remuneration of these Annual Financial Statements are within the upper limits of the framework envisaged in section 218 of the Constitution, read with the Remuneration of the Public Office Bearers Act and the Minister of Provincial and Local Governments' determination in accordance with this Act.

The annual financial statements set out on pages 4 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:

  
Mr P.P. Sitya  
Accounting Officer

# Mthonjaneni Local Municipality

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

| Figures in Rand                            | Note(s) | 2019               | 2018<br>Restated*  |
|--|---------|--------------------|--------------------|
| <b>ASSETS</b>                              |         |                    |                    |
| <b>Current Assets</b>                      |         |                    |                    |
| Inventories                                | 9       | 445 750            | 543 824            |
| Receivables from Non-Exchange Transactions | 10&11   | 37 519 957         | 37 657 243         |
| VAT Receivable                             | 12      | 730 276            | 3 803 731          |
| Receivables from Exchange Transactions     | 13      | 6 402 037          | 5 573 090          |
| Cash and Cash Equivalents                  | 14      | 2 693 793          | 3 680 200          |
|  |         | <b>47 791 813</b>  | <b>51 258 088</b>  |
| <b>Non-Current Assets</b>                  |         |                    |                    |
| Biological Assets                          | 3       | 2 762 238          | 1 505 763          |
| Investment Property                        | 4       | 106 351            | 111 773            |
| Property, Plant and Equipment              | 5       | 368 869 540        | 351 353 642        |
| Intangible Assets                          | 6       | 33 335             | 35 391             |
| Heritage Assets                            | 7       | 589                | 589                |
|  |         | <b>371 772 053</b> | <b>353 007 158</b> |
| <b>TOTAL ASSETS</b>                        |         | <b>419 563 866</b> | <b>404 265 246</b> |
| <b>LIABILITIES</b>                         |         |                    |                    |
| <b>Current Liabilities</b>                 |         |                    |                    |
| Payables from Exchange Transactions        | 17      | 26 656 692         | 12 741 799         |
| Consumer Deposits                          | 18      | 1 021 012          | 1 080 650          |
| Unspent Conditional Grants and Receipts    | 15      | 17 134             | 17 134             |
| Provisions                                 | 16      | 3 620 807          | 3 260 955          |
|  |         | <b>31 315 645</b>  | <b>17 100 538</b>  |
| <b>Non-Current Liabilities</b>             |         |                    |                    |
| Employee Benefit Obligation                | 8       | 3 442 001          | 2 761 001          |
| Provisions                                 | 16      | 5 882 190          | 5 107 283          |
|  |         | <b>9 324 191</b>   | <b>7 868 284</b>   |
| <b>TOTAL LIABILITIES</b>                   |         | <b>40 639 836</b>  | <b>24 968 822</b>  |
| <b>NET ASSETS</b>                          |         | <b>378 924 030</b> | <b>379 296 424</b> |
| <b>ACCUMULATED SURPLUS</b>                 |         | <b>378 924 030</b> | <b>379 296 425</b> |

\* See Note 41

# Mthonjaneni Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

| Figures in Rand                                     | Note(s) | 2019                 | 2018<br>Restated*    |
|---|---------|----------------------|----------------------|
| <b>REVENUE</b>                                      |         |                      |                      |
| <b>Revenue From Exchange Transactions</b>           |         |                      |                      |
| Service Charges                                     | 20      | 22 284 343           | 21 984 542           |
| Rental of Facilities and Equipment                  | 21      | 261 926              | 226 610              |
| Licenses and permits                                | 22      | 1 543 785            | 1 671 732            |
| Other Income  | 24      | 277 050              | 1 065 676            |
| Interest Received - Investment                      | 25      | 695 572              | 1 367 140            |
| Fair Value Adjustment                               | 34      | 1 256 474            | -                    |
| <b>TOTAL REVENUE FROM EXCHANGE TRANSACTIONS</b>     |         | <b>26 319 150</b>    | <b>26 315 700</b>    |
| <b>Revenue From Non-Exchange Transactions</b>       |         |                      |                      |
| <b>Revenue</b>                                      |         |                      |                      |
| Property Rates                                      | 26      | 12 125 009           | 11 431 084           |
| Property Rates - Penalties Imposed                  | 26      | 1 328 042            | 1 158 439            |
| <b>Transfer revenue</b>                             |         |                      |                      |
| Government Grants & Subsidies                       | 27      | 113 421 000          | 111 648 000          |
| Fines, Penalties and Forfeits                       | 23      | 426 689              | 9 006 350            |
| <b>TOTAL REVENUE FROM NON-EXCHANGE TRANSACTIONS</b> |         | <b>127 300 740</b>   | <b>133 243 873</b>   |
| <b>TOTAL REVENUE</b>                                | 19      | <b>153 619 890</b>   | <b>159 559 573</b>   |
| <b>EXPENDITURE</b>                                  |         |                      |                      |
| Employee Related Costs                              | 28      | (51 214 428)         | (42 913 126)         |
| Remuneration of Councillors                         | 29      | (8 349 994)          | (7 637 279)          |
| Depreciation and Amortisation                       | 30      | (17 488 900)         | (15 257 800)         |
| Interest Paid                                       | 51      | (341 816)            | -                    |
| Bulk Purchases                                      | 31      | (22 302 722)         | (21 540 968)         |
| Contracted Services                                 | 32      | (7 639 993)          | (5 787 818)          |
| Fair Value Adjustments                              | 34      | -                    | (1 260 378)          |
| Actuarial Losses                                    |         | (681 000)            | (21 000)             |
| General Expenses                                    | 33      | (45 952 403)         | (49 167 532)         |
| <b>TOTAL EXPENDITURE</b>                            |         | <b>(153 971 256)</b> | <b>(143 585 901)</b> |
| <b>SURPLUS/(DEFICIT) FOR THE YEAR</b>               |         | <b>(351 366)</b>     | <b>15 973 672</b>    |

\* See Note 41

## Mthonjaneni Local Municipality

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

### Statement of Changes in Net Assets

| Figures in Rand                             | Accumulated<br>surplus | Total net<br>assets |
|---|------------------------|---------------------|
| <b>Balance at 01 July 2017</b>              | <b>363 322 753</b>     | <b>363 322 753</b>  |
| Changes in net assets                       |                        |                     |
| Surplus for the year                        | 15 973 672             | 15 973 672          |
| <b>Total changes</b>                        | <b>15 973 672</b>      | <b>15 973 672</b>   |
| Opening Balance as Previously Reported      | 379 288 616            | 379 288 616         |
| Adjustments                                 |                        |                     |
| Prior Year Adjustments                      | (13 220)               | (13 220)            |
| <b>Balance at 01 July 2018 as restated*</b> | <b>379 275 396</b>     | <b>379 275 396</b>  |
| Changes in net assets                       |                        |                     |
| Surplus for the year                        | (351 366)              | (351 366)           |
| <b>Total Changes</b>                        | <b>(351 366)</b>       | <b>(351 366)</b>    |
| <b>Balance at 30 June 2019</b>              | <b>378 924 030</b>     | <b>378 924 030</b>  |

\* See Note 41

# Mthonjaneni Local Municipality

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

| Figures in Rand   | Note(s)   | 2019                       | 2018<br>Restated*          |
|---|-----------|----------------------------|----------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                  |           |                            |                            |
| <b>Receipts</b>   |           |                            |                            |
| Taxation  |           | 13 361 388                 | 12 589 523                 |
| Sale of Goods and Services                                  |           | 26 263 886                 | 23 294 391                 |
| Grants  |           | 113 421 000                | 111 648 000                |
| Interest Income   |           | 695 572                    | 1 367 140                  |
|   |           | <u>153 741 846</u>         | <u>148 899 054</u>         |
| <b>Payments</b>   |           |                            |                            |
| Employee Costs  |           | (59 564 422)               | (50 529 405)               |
| Suppliers   |           | (59 834 772)               | (73 236 429)               |
| Interest Paid   |           | (341 816)                  | -                          |
|   |           | <u>(119 741 010)</u>       | <u>(123 765 834)</u>       |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>             | <b>36</b> | <b><u>34 000 836</u></b>   | <b><u>25 133 220</u></b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |           |                            |                            |
| Purchase of Property, Plant and Equipment                   | 5         | (34 972 944)               | (41 734 955)               |
| Purchase of Other Intangible Assets                         | 6         | (14 300)                   | -                          |
| <b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>             |           | <b><u>(34 987 244)</u></b> | <b><u>(41 734 955)</u></b> |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b> |           | <b><u>(986 408)</u></b>    | <b><u>(16 601 735)</u></b> |
| Cash and Cash Equivalents at the beginning of the year      |           | 3 680 200                  | 20 281 935                 |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>     | <b>14</b> | <b><u>2 693 792</u></b>    | <b><u>3 680 200</u></b>    |

\* See Note 41



# Mthonjaneni Local Municipality

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

|  | Original budget      | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget         | Actual outcome       | Unauthorised expenditure | Variance            | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|----------------------|---|--------------------------|--|---|----------------------|----------------------|--------------------------|---------------------|-------------------------------------|--|
| <b>2019</b>  |                      |   |                          |  |   |                      |                      |                          |                     |                                     |  |
| <b>Financial Performance</b>   |                      |   |                          |  |   |                      |                      |                          |                     |                                     |  |
| Property Rates   | 13 850 000           | 5 000 000   | 18 850 000               | -  | -   | 18 850 000           | 13 453 051           | -                        | (5 396 949)         | 71 %                                | 97 %                                   |
| Service Charges  | 27 314 000           | 2 000 000   | 29 314 000               | -  | -   | 29 314 000           | 22 284 343           | -                        | (7 029 657)         | 76 %                                | 82 %                                   |
| Investment Revenue   | 1 200 000            | (450 000)   | 750 000                  | -  | -   | 750 000              | 695 572              | -                        | (54 428)            | 93 %                                | 58 %                                   |
| Transfers Recognised - Operational                                   | 76 672 000           | -   | 76 672 000               | -  | -   | 76 672 000           | 76 672 000           | -                        | -                   | 100 %                               | 100 %                                  |
| Other Own Revenue  | 9 185 000            | 9 265 000   | 18 450 000               | -  | -   | 18 450 000           | 3 765 924            | -                        | (14 684 076)        | 20 %                                | 41 %                                   |
| <b>Total revenue (excluding capital transfers and contributions)</b> | <b>128 221 000</b>   | <b>15 815 000</b>                                   | <b>144 036 000</b>       | <b>-</b>                                   | <b>-</b>                                  | <b>144 036 000</b>   | <b>116 870 890</b>   | <b>-</b>                 | <b>(27 165 110)</b> | <b>81 %</b>                         | <b>81 %</b>                            |
| Employee Costs   | (48 580 000)         | (3 775 000)   | (52 355 000)             | -  | -   | (52 355 000)         | (51 214 428)         | -                        | 1 140 572           | 98 %                                | 105 %                                  |
| Remuneration of Councillors  | (7 886 000)          | (924 000)   | (8 810 000)              | -  | -   | (8 810 000)          | (8 349 994)          | -                        | 460 006             | 95 %                                | 106 %                                  |
| Depreciation and Asset Impairment                                    | (5 252 000)          | -   | (5 252 000)              | -  | -   | (5 252 000)          | (17 488 900)         | -                        | (12 236 900)        | 333 %                               | 333 %                                  |
| Interest Paid  | -                    | -   | -                        | -  | -   | -                    | (341 816)            | -                        | (341 816)           | DIV/0 %                             | DIV/0 %                                |
| Materials and Bulk Purchases   | (25 752 000)         | (460 000)   | (26 212 000)             | -  | -   | (26 212 000)         | (22 302 722)         | -                        | 3 909 278           | 85 %                                | 87 %                                   |
| Other Expenditure  | (37 130 000)         | (9 654 000)   | (46 784 000)             | -  | -   | (46 784 000)         | (54 273 396)         | -                        | (7 489 396)         | 116 %                               | 146 %                                  |
| <b>Total Expenditure</b>   | <b>(124 600 000)</b> | <b>(14 813 000)</b>                                 | <b>(139 413 000)</b>     | <b>-</b>                                   | <b>-</b>                                  | <b>(139 413 000)</b> | <b>(153 971 256)</b> | <b>-</b>                 | <b>(14 558 256)</b> | <b>110 %</b>                        | <b>124 %</b>                           |
| <b>Surplus/(Deficit)</b>   | <b>3 621 000</b>     | <b>1 002 000</b>                                    | <b>4 623 000</b>         | <b>-</b>                                   | <b>-</b>                                  | <b>4 623 000</b>     | <b>(37 100 366)</b>  | <b>-</b>                 | <b>(41 723 366)</b> | <b>(803)%</b>                       | <b>(1 026)%</b>                        |

## Mthonjaneni Local Municipality

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

### Statement of Comparison of Budget and Actual Amounts

Figures in Rand

|   | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance     | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|-----------------|---|--------------------------|--|---|--------------|----------------|--------------------------|--------------|-------------------------------------|--|
| Transfers recognised - capital                              | 32 749 000      | -   | 32 749 000               | -  |   | 32 749 000   | 36 749 000     |                          | 4 000 000    | 112 %                               | 112 %                                  |
| Surplus (Deficit) after capital transfers and contributions | 36 370 000      | 1 002 000   | 37 372 000               | -  |   | 37 372 000   | (361 366)      |                          | (37 723 366) | (1)%                                | (1)%                                   |
| Surplus/(Deficit) for the year                              | 36 370 000      | 1 002 000   | 37 372 000               | -  |   | 37 372 000   | (361 366)      |                          | (37 723 366) | (1)%                                | (1)%                                   |
| <b>Capital expenditure and funds sources</b>                |                 |   |                          |  |   |              |                |                          |              |                                     |  |
| Total Capital Expenditure                                   | 36 339 000      | 1 226 000   | 37 565 000               | -  |   | 37 565 000   | 34 972 944     |                          | (2 592 056)  | 93 %                                | 96 %                                   |
| <b>Sources of capital funds</b>                             |                 |   |                          |  |   |              |                |                          |              |                                     |  |
| Transfers recognised - capital                              | 32 749 000      | -   | 32 749 000               | -  |   | 32 749 000   | -              |                          | (32 749 000) | - %                                 | - %                                    |
| Internally generated funds                                  | 3 590 000       | 1 226 000   | 4 816 000                | -  |   | 4 816 000    | -              |                          | (4 816 000)  | - %                                 | - %                                    |
| Total sources of capital funds                              | 36 339 000      | 1 226 000   | 37 565 000               | -  |   | 37 565 000   | -              |                          | (37 565 000) | - %                                 | - %                                    |

# Mthonjaneni Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

|  | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance     | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|-----------------|---|--------------------------|--|---|--------------|----------------|--------------------------|--------------|-------------------------------------|--|
| <b>Cash flows</b>                                      |                 |   |                          |  |   |              |                |                          |              |                                     |  |
| Net cash from (used) operating                         | 37 287 000      | (17 363 000)  | 19 924 000               | -  |   | 19 924 000   | 34 000 836     |                          | 14 076 836   | 171 %                               | 91 %                                   |
| Net cash from (used) investing                         | (27 839 000)    | (1 226 000)   | (29 065 000)             | -  |   | (29 065 000) | (34 987 244)   |                          | (5 922 244)  | 120 %                               | 126 %                                  |
| Net increase/(decrease) in cash and cash equivalents   | 9 448 000       | (18 589 000)  | (9 141 000)              | -  |   | (9 141 000)  | (986 408)      |                          | 8 154 592    | 11 %                                | (10)%                                  |
| Cash and cash equivalents at the beginning of the year | (6 551 000)     | 6 551 000   | -                        | -  |   | -            | 3 680 200      |                          | 3 680 200    | DIV/0 %                             | (56)%                                  |
| Cash and cash equivalents at year end                  | 2 897 000       | (12 038 000)  | (9 141 000)              | -  |   | (9 141 000)  | 2 693 792      |                          | (11 834 792) | (29)%                               | 93 %                                   |

# **Mthonjaneni Local Municipality**

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

The amounts presented in the annual financial statements are rounded-off to the nearest rand.

#### **1.2 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.3 Biological assets**

The entity recognises biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of the pine plantations is based on the combined fair value of the land and the pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the pine trees.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets is included in surplus or deficit for the period in which it arises.

#### **1.4 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

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### 1.4 Investment property (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

| Item                 | Useful life |
|----------------------|-------------|
| Property - land      | indefinite  |
| Property - buildings | 40 years    |

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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### 1.5 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item                                | Depreciation method | Average useful life |
|-------------------------------------|---------------------|---------------------|
| Land                                |                     | Indefinite          |
| Buildings                           | Straight line       |                     |
| • Dwellings                         |                     | 30 Years            |
| • Carports                          |                     | 15 Years            |
| • Fence                             |                     | 25 Years            |
| Machinery and equipment             | Straight line       | 10 Years            |
| Furniture and office equipment      | Straight line       | 7 Years             |
| Transport Assets                    | Straight line       | 7 Years             |
| Infrastructure                      | Straight line       |                     |
| • Electrical                        |                     | 15 Years            |
| • Solid Waste                       |                     | 15 Years            |
| • Roads                             |                     | 10 Years            |
| Community                           | Straight line       | 25 Years            |
| Other property, plant and equipment | Straight line       | 30 Years            |

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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### 1.6 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item              | Depreciation method | Average useful life |
|-------------------|---------------------|---------------------|
| Licenses          |                     | 10 Years            |
| Computer software |                     | 5 Years             |

### 1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

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### **1.7 Heritage assets (continued)**

#### **Impairment**

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### **Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### **Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### **1.8 Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.



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### **1.8 Financial Instruments (continued)**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### **Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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### **1.8 Financial instruments (continued)**

#### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

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## **Accounting Policies**

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### **1.8 Financial Instruments (continued)**

#### **Derecognition**

##### **Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### **Financial liabilities**

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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### **1.8 Financial instruments (continued)**

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### **1.9 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.10 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

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## **Accounting Policies**

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### **1.10 Inventories (continued)**

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

### **1.11 Construction contracts and receivables**

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

### **1.12 Value-Added Tax (VAT)**

The municipality is registered with the South African Revenue Services (SARS) VAT on the invoice basis, in accordance with Section 15(1) of the VAT Act No.89 of 1991.

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## **Accounting Policies**

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### **1.13 Impairment of cash-generating assets**

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

### **Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

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## **Accounting Policies**

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### **1.13 Impairment of cash-generating assets (continued)**

#### **Basis for estimates of future cash flows**

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### **Composition of estimates of future cash flows**

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### **Recognition and measurement (Individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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### **1.13 Impairment of cash-generating assets (continued)**

#### **Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.



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### **1.13 Impairment of cash-generating assets (continued)**

#### **Reversal of impairment loss**

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### **1.14 Share capital / contributed capital**

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### **1.15 Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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### **1.15 Employee benefits (continued)**

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care; and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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### **1.15 Employee benefits (continued)**

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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### **1.15 Employee benefits (continued)**

#### **Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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### **1.15 Employee benefits (continued)**

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

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### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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### **1.16 Provisions and contingencies (continued)**

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### **1.17 Commitments**

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

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### 1.17 Commitments (continued)

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### Interest

Revenue arising from the use by others of entity assets yielding interest, similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.



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### **1.19 Revenue from non-exchange transactions**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **Rates, including collection charges and penalties interest**

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### **Fines**

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

#### **Levies**

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

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### 1.19 Revenue from non-exchange transactions (continued)

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

# **Mthonjaneni Local Municipality**

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## **Accounting Policies**

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### **1.23 Fruitless and wasteful expenditure (continued)**

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.24 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.25 Budget information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### **1.26 Related parties**

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

# **Mthonjaneni Local Municipality**

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## **Accounting Policies**

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### **1.26 Related parties (continued)**

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### **1.27 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Mthonjaneni Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

| Standard/ Interpretation:  | Effective date:<br>Years beginning on or after | Expected impact:            |
|--|--|-----------------------------|
| • GRAP 12 (as amended 2016): Inventories   | 01 April 2019                                  | The impact is not material. |
| • GRAP 16 (as amended 2016): Investment Property                                       | 01 April 2019                                  | The impact is not material. |
| • GRAP 17 (as amended 2016): Property, Plant and Equipment                             | 01 April 2019                                  | The impact is not material. |
| • GRAP 21 (as amended 2016): Impairment of non-cash-generating assets                  | 01 April 2019                                  | The impact is not material. |
| • GRAP 26 (as amended 2016): Impairment of cash-generating assets                      | 01 April 2019                                  | The impact is not material. |
| • GRAP 27 (as amended 2016): Agriculture   | 01 April 2019                                  | The impact is not material. |
| • GRAP 31 (as amended 2016): Intangible Assets   | 01 April 2019                                  | The impact is not material. |
| • GRAP 103 (as amended 2016): Heritage Assets  | 01 April 2019                                  | The impact is not material. |
| • Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities | 01 April 2019                                  | The impact is not material. |

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

| Standard/ Interpretation:  | Effective date:<br>Years beginning on or after | Expected Impact:                         |
|--|--|--|
| • Guideline: Guideline on Accounting for Landfill Sites  | 01 April 2019                                  | Unlikely there will be a material impact |
| • Guideline: Guideline on the Application of Materiality to Financial Statements   | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 36: Investments in Associates and Joint Ventures  | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 37: Joint Arrangements  | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 38: Disclosure of Interests in Other Entities   | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 110 (as amended 2016): Living and Non-living Resources  | 01 April 2019                                  | Unlikely there will be a material impact |
| • IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue   | 01 April 2019                                  | Unlikely there will be a material impact |
| • Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges | 01 April 2019                                  | Unlikely there will be a material impact |
| • Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme   | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements   | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 7 (as revised 2010): Investments in Associates  | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 8 (as revised 2010): Interests in Joint Ventures  | 01 April 2019                                  | Unlikely there will be a material impact |
| • Directive 7 (revised): The Application of Deemed Cost  | 01 April 2019                                  | Unlikely there will be a material impact |
| • GRAP 18 (as amended 2016): Segment Reporting   | 01 April 2019                                  | Unlikely there will be a material impact |

# Mthonjaneni Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 2. New standards and Interpretations (continued)

|  |               |  |
|--|---------------|--|
| • GRAP 20: Related parties   | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 32: Service Concession Arrangements: Grantor  | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 105: Transfers of functions between entities under common control   | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 106 (as amended 2016): Transfers of functions between entities not under common control                   | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 107: Mergers  | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 108: Statutory Receivables  | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 109: Accounting by Principals and Agents  | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 11: Consolidation – Special purpose entities   | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures                                 | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land                      | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 19: Liabilities to Pay Levies  | 01 April 2019 | Unlikely there will be a material impact |

## Mthonjaneni Local Municipality

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#### 3. Biological assets

|            | 2019                |   |                | 2018                |   |                |
|------------|---------------------|---|----------------|---------------------|---|----------------|
|            | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value |
| Plantation | 2 762 238           | -   | 2 762 238      | 1 505 763           | -   | 1 505 763      |

#### Reconciliation of biological assets - 2019

|            | Opening<br>balance | Gains or<br>losses arising<br>from changes<br>in fair value | Total     |
|------------|--------------------|---|-----------|
| Plantation | 1 505 763          | 1 256 475   | 2 762 238 |

#### Reconciliation of biological assets - 2018

|            | Opening<br>balance | Gains or<br>losses arising<br>from changes<br>in fair value | Total     |
|------------|--------------------|---|-----------|
| Plantation | 2 766 141          | (1 260 378)   | 1 505 763 |

#### Pledged as security

There is no Plantation pledged as security.

## Mthonjaneni Local Municipality

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### Notes to the Annual Financial Statements

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#### 4. Investment property

|                     | 2019                |   |                | 2018                |   |                |
|---------------------|---------------------|---|----------------|---------------------|---|----------------|
|                     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value |
| Investment property | 238 995             | (132 644)   | 106 351        | 238 995             | (127 222)   | 111 773        |

#### Reconciliation of investment property - 2019

|                     | Opening<br>balance | Depreciation | Total   |
|---------------------|--------------------|--------------|---------|
| Investment property | 111 773            | (5 422)      | 106 351 |

#### Reconciliation of investment property - 2018

|                     | Opening<br>balance | Depreciation | Total   |
|---------------------|--------------------|--------------|---------|
| Investment property | 117 197            | (5 424)      | 111 773 |

#### Pledged as security

There is no Investment Property pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:



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## Notes to the Annual Financial Statements

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|-----------------|------|------|
|-----------------|------|------|

### 4. Investment property (continued)

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the cost model (when fair value of investment property cannot be reliably determined), disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

## Mthonjaneni Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

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#### 5. Property, plant and equipment

|                                | 2019                |   |                    | 2018                |   |                    |
|--------------------------------|---------------------|---|--------------------|---------------------|---|--------------------|
|                                | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     |
| Land                           | 46 198 292          | -   | 46 198 292         | 46 198 292          | -   | 46 198 292         |
| Machinery and Equipment        | 4 938 486           | (1 914 505)   | 3 023 981          | 4 487 622           | (1 316 426)   | 3 171 196          |
| Furniture and Office Equipment | 1 753 018           | (946 609)   | 806 409            | 1 675 887           | (797 931)   | 877 956            |
| Transport Assets               | 13 952 388          | (8 277 491)   | 5 674 897          | 13 952 388          | (6 646 138)   | 7 306 250          |
| Computer Equipment             | 888 378             | (500 290)   | 388 088            | 739 835             | (399 623)   | 340 212            |
| Community Assets               | 100 227 499         | (20 345 299)  | 79 882 200         | 95 356 420          | (16 818 644)  | 78 537 776         |
| Road Infrastructure            | 95 723 502          | (14 699 306)  | 81 024 196         | 92 084 854          | (10 314 823)  | 81 770 031         |
| Work In Progress               | 48 136 037          | -   | 48 136 037         | 33 389 985          | -   | 33 389 985         |
| Stormwater Infrastructure      | 8 993 093           | (1 447 877)   | 7 545 216          | 8 993 093           | (1 106 760)   | 7 886 333          |
| Solid Waste Infrastructure     | 209 004             | (59 036)  | 149 968            | 209 004             | (53 549)  | 155 455            |
| Water Supply Infrastructure    | 1 984 882           | (396 976)   | 1 587 906          | 1 984 882           | (198 488)   | 1 786 394          |
| Electrical Infrastructure      | 88 389 043          | (14 906 268)  | 73 482 775         | 77 670 825          | (9 583 873)   | 68 086 952         |
| Other Assets                   | 27 699 052          | (6 729 477)   | 20 969 575         | 27 366 568          | (5 519 758)   | 21 846 810         |
| <b>Total</b>                   | <b>439 082 674</b>  | <b>(70 223 134)</b>   | <b>368 869 540</b> | <b>404 109 655</b>  | <b>(52 756 013)</b>   | <b>351 353 642</b> |

## Mthonjaneni Local Municipality

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#### 5. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2019

|                                | Opening<br>balance | Additions         | Transfers    | Depreciation        | Total              |
|--------------------------------|--------------------|-------------------|--------------|---------------------|--------------------|
| Land                           | 46 198 282         | -                 | -            | -                   | 46 198 282         |
| Machinery and Equipment        | 3 171 186          | 450 864           | -            | (598 079)           | 3 023 981          |
| Furniture and Office Equipment | 877 956            | 77 131            | -            | (148 678)           | 806 409            |
| Transport Assets               | 7 306 250          | -                 | -            | (1 631 353)         | 5 674 897          |
| Computer Equipment             | 340 212            | 138 467           | -            | (90 591)            | 388 088            |
| Community Assets               | 78 537 776         | 41 534            | 4 829 546    | (3 526 656)         | 79 882 200         |
| Road Infrastructure            | 81 770 031         | 106 143           | 3 532 505    | (4 384 483)         | 81 024 196         |
| Work In Progress               | 33 389 985         | 33 826 321        | (19 080 269) | -                   | 48 136 037         |
| Stormwater Infrastructure      | 7 886 333          | -                 | -            | (341 117)           | 7 545 216          |
| Solid Waste Infrastructure     | 155 455            | -                 | -            | (5 487)             | 149 968            |
| Water Supply Infrastructure    | 1 786 384          | -                 | -            | (198 488)           | 1 587 906          |
| Electrical Infrastructure      | 68 086 952         | -                 | 10 718 218   | (5 322 395)         | 73 482 775         |
| Other Assets                   | 21 846 810         | 332 484           | -            | (1 209 719)         | 20 969 575         |
|                                | <b>351 353 642</b> | <b>34 972 944</b> | <b>-</b>     | <b>(17 457 046)</b> | <b>368 869 540</b> |

## Mthonjaneni Local Municipality

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

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#### 5. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2018

|                                     | Opening<br>balance | Additions         | Transfers<br>received | Reclassificati<br>on | Depreciation        | Impairment<br>loss | Total              |
|-------------------------------------|--------------------|-------------------|-----------------------|----------------------|---------------------|--------------------|--------------------|
| Land                                | 46 198 292         | -                 | -                     | -                    | -                   | -                  | 46 198 292         |
| Buildings                           | 76 813 637         | -                 | -                     | (76 813 637)         | -                   | -                  | -                  |
| Plant and machinery                 | -                  | 874 132           | -                     | 2 916 690            | (619 626)           | -                  | 3 171 196          |
| Furniture and fixtures              | -                  | 558 091           | -                     | 435 670              | (115 805)           | -                  | 877 956            |
| Transport Assets                    | -                  | 716 590           | -                     | 8 945 785            | (2 356 105)         | -                  | 7 306 250          |
| Computer Equipment                  | -                  | 131 320           | -                     | 318 324              | (109 432)           | -                  | 340 212            |
| Infrastructure                      | 112 618 268        | -                 | -                     | (112 618 268)        | -                   | -                  | -                  |
| Community Assets                    | -                  | 195 020           | 18 506 741            | 63 301 548           | (3 465 533)         | -                  | 78 537 776         |
| Other property, plant and equipment | 12 778 258         | -                 | -                     | (12 778 258)         | -                   | -                  | -                  |
| Road Infrastructure                 | -                  | -                 | 22 467 827            | 62 971 020           | (3 668 816)         | -                  | 81 770 031         |
| Work In Progress                    | 76 396 214         | 38 412 727        | (81 418 956)          | -                    | -                   | -                  | 33 389 985         |
| Stormwater Infrastructure           | -                  | -                 | 1 058 268             | 7 164 276            | (336 211)           | -                  | 7 886 333          |
| Solid Waste Infrastructure          | -                  | -                 | -                     | 160 943              | (5 486)             | -                  | 155 455            |
| Water Supply Infrastructure         | -                  | -                 | 1 984 882             | -                    | (198 488)           | -                  | 1 786 394          |
| Electrical Infrastructure           | -                  | 641 884           | 28 495 948            | 42 250 404           | (3 301 284)         | -                  | 68 086 952         |
| Other Assets                        | -                  | 203 355           | 8 907 125             | 13 745 523           | (1 007 518)         | (1 675)            | 21 846 810         |
|                                     | <b>324 804 669</b> | <b>41 733 119</b> | <b>1 835</b>          | <b>-</b>             | <b>(15 184 306)</b> | <b>(1 675)</b>     | <b>361 363 642</b> |

# Mthonjaneni Local Municipality

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 5. Property, plant and equipment (continued)

#### Pledged as security

There are no assets pledged as security.

#### Reconciliation of Work-in-Progress 2019

|                                | Included<br>within<br>Electrical<br>Infrastructure Assets | Included<br>within<br>Community<br>Assets | Included<br>within Road<br>Infrastructure Assets | Included<br>within Other<br>Assets | Total             |
|--------------------------------|---|---|--|------------------------------------|-------------------|
| Opening balance                | 17 496 172  | 1 449 675                                 | 5 924 605  | 8 519 531                          | 33 389 983        |
| Additions                      | 13 234 371  | 5 883 031                                 | 14 708 920                                       | -                                  | 33 826 322        |
| Transferred to completed items | (10 718 218)  | (4 829 546)                               | (3 532 505)                                      | -                                  | (19 080 269)      |
|                                | <b>20 012 325</b>   | <b>2 503 160</b>                          | <b>17 101 020</b>                                | <b>8 519 531</b>                   | <b>48 136 036</b> |

# Mthonjaneni Local Municipality

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## Notes to the Annual Financial Statements

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### 5. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2018

|                                | Included<br>within<br>Electrical<br>Infrastructure Assets | Included<br>within<br>Community<br>Assets | Included<br>within Road<br>Infrastructure Assets | Included<br>within Other<br>Assets | Included<br>within Storm<br>Water<br>Infrastructure | Total             |
|--------------------------------|---|---|--|------------------------------------|---|-------------------|
| Opening balance                | 35 031 229  | 17 763 950                                | 18 706 473                                       | 4 894 562                          | -   | 76 396 214        |
| Additions                      | 10 960 892  | 2 192 468                                 | 9 684 132  | 14 516 976                         | 1 058 268   | 38 412 736        |
| Transferred to completed items | (28 495 949)  | (18 506 742)                              | (22 465 990)                                     | (10 892 007)                       | (1 058 268)   | (81 418 956)      |
|                                | <b>17 496 172</b>   | <b>1 449 676</b>                          | <b>5 924 615</b>                                 | <b>8 519 531</b>                   | <b>-</b>  | <b>33 389 994</b> |

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

#### Expenditure incurred to repair and maintain Property, plant and equipment Included in Statement of Financial Performance

|                     |                  |                  |
|---------------------|------------------|------------------|
| Contracted services | 2 182 139        | 2 852 691        |
| Materials           | 2 414 064        | 1 103 961        |
|                     | <b>4 596 203</b> | <b>3 956 652</b> |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the Municipality.

## Mthonjaneni Local Municipality

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### Notes to the Annual Financial Statements

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#### 6. Intangible assets

|                   | 2019                |   |                | 2018                |   |                |
|-------------------|---------------------|---|----------------|---------------------|---|----------------|
|                   | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value |
| Computer software | 237 563             | (204 228)   | 33 335         | 223 263             | (187 872)   | 35 391         |

#### Reconciliation of intangible assets - 2019

|                   | Opening<br>balance | Additions | Amortisation | Total  |
|-------------------|--------------------|-----------|--------------|--------|
| Computer software | 35 391             | 14 300    | (16 356)     | 33 335 |

#### Reconciliation of intangible assets - 2018

|                   | Opening<br>balance | Amortisation | Total  |
|-------------------|--------------------|--------------|--------|
| Computer software | 80 892             | (45 501)     | 35 391 |

## Mthonjaneni Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

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#### 7. Heritage assets

Historical monuments

| 2019                |                                     |                | 2018                |                                     |                |
|---------------------|-------------------------------------|----------------|---------------------|-------------------------------------|----------------|
| Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value | Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value |
| 589                 | -                                   | 589            | 589                 | -                                   | 589            |

#### Reconciliation of heritage assets 2019

Historical monuments

| Opening<br>balance | Total |
|--------------------|-------|
| 589                | 589   |

#### Reconciliation of heritage assets 2018

Historical monuments

| Opening<br>balance | Total |
|--------------------|-------|
| 589                | 589   |



# Mthonjaneni Local Municipality

(Registration number KZN 285)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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|--|---------------------|---------------------|
| <b>8. Employee benefit obligations</b>   |                     |                     |
| <b>Defined benefit plan</b>  |                     |                     |
| The plan is a post employment medical benefit plan.                            |                     |                     |
| Changes in the present value of the defined benefit obligation are as follows: |                     |                     |
| Opening balance  | 2 761 001           | 2 740 001           |
| Net expense recognised in the statement of financial performance               | 681 000             | 21 000              |
|  | <b>3 442 001</b>    | <b>2 761 001</b>    |
| <b>Net expense recognised in the statement of financial performance</b>        |                     |                     |
| Current service cost   | 291 000             | 204 000             |
| Interest cost  | 248 000             | 284 000             |
| Actuarial (gains) losses   | 173 000             | (347 000)           |
| Expected return on reimbursement rights  | (31 000)            | (120 000)           |
|  | <b>681 000</b>      | <b>21 000</b>       |
| <b>Key assumptions used</b>  |                     |                     |
| Assumptions used at the reporting date:  |                     |                     |
| Discount rates used  | 8.93 %              | 9.05 %              |
| Medical cost trend rates   | 7.70 %              | 7.37 %              |
| Expected increase in salaries  | 7.20 %              | 1.57 %              |
| Expected pension increases   | 6.20 %              | 5.68 %              |
| Proportion of employees opting for early retirement                            | - %                 | 3.37 %              |
| <b>9. Inventories</b>  |                     |                     |
| Consumable stores  | 445 750             | 543 824             |
| <b>Inventory pledged as security</b>   |                     |                     |
| There is no inventory pledged as security.                                     |                     |                     |
| <b>10. Receivables from non-exchange transactions</b>                          |                     |                     |
| Fines  | 14 759 392          | 17 009 977          |
| Other non-exchange receivable (Ntambanana Split)                               | 5 715 430           | 5 715 430           |
| Consumer debtors - Rates   | 17 045 135          | 14 931 836          |
|  | <b>37 519 957</b>   | <b>37 657 243</b>   |
| <b>Reconciliation of provision for impairment traffic fines</b>                |                     |                     |
| Opening balance  | (72 799 825)        | (70 120 525)        |
| Provision for impairment   | (1 786 923)         | (2 679 300)         |
|  | <b>(74 586 748)</b> | <b>(72 799 825)</b> |
| <b>11. Property rates debtors disclosure</b>                                   |                     |                     |
| <b>Gross balances</b>  |                     |                     |
| Consumer debtors - Rates   | 21 563 779          | 18 794 842          |

# Mthonjaneni Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

| Figures in Rand  | 2019               | 2018              |
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| <b>11. Property rates debtors disclosure (continued)</b>           |                    |                   |
| <b>Less: Allowance for impairment</b>                              |                    |                   |
| Consumer debtors - Rates   | (4 518 644)        | (3 863 006)       |
| <b>Net balance</b>   |                    |                   |
| Consumer debtors - Rates   | 17 045 135         | 14 931 836        |
| <b>Rates</b>   |                    |                   |
| Current (0 -30 days)   | 379 652            | -                 |
| 31 - 60 days   | 763 311            | 488 515           |
| 61 - 90 days   | 325 731            | 412 788           |
| 91 - 120 days  | 315 602            | 306 396           |
| 121 - 365 days   | 197 874            | 17 587 143        |
| 121 - 365 days   | 152 246            | -                 |
| > 365 days   | 14 910 719         | (3 863 006)       |
|  | <b>17 045 135</b>  | <b>14 931 836</b> |
| <b>12. VAT receivable</b>  |                    |                   |
| VAT  | 730 276            | 3 803 731         |
| <b>13. Consumer debtors</b>  |                    |                   |
| <b>Gross balances</b>  |                    |                   |
| Electricity  | 5 470 779          | 5 160 783         |
| Refuse   | 1 901 218          | 1 208 111         |
| Creditors with debit balance                                       | 46 035             | -                 |
| Property rentals   | 288 450            | 160 915           |
|  | <b>7 706 482</b>   | <b>6 529 809</b>  |
| <b>Less: Allowance for impairment</b>                              |                    |                   |
| Electricity  | (647 987)          | (471 831)         |
| Refuse   | (656 458)          | (484 888)         |
|  | <b>(1 304 445)</b> | <b>(956 719)</b>  |
| <b>Net balance</b>   |                    |                   |
| Electricity  | 4 822 792          | 4 688 952         |
| Refuse   | 1 244 760          | 723 223           |
| Housing rental   | 46 035             | -                 |
| Property rentals   | 288 450            | 160 915           |
|  | <b>6 402 037</b>   | <b>5 573 090</b>  |
| <b>Included in above is receivables from exchange transactions</b> |                    |                   |
| Electricity  | 4 822 792          | 4 688 952         |
| Refuse   | 1 244 760          | 723 223           |
| Property rentals   | 288 450            | 160 915           |
|  | <b>6 356 002</b>   | <b>5 573 090</b>  |
| <b>Net balance</b>   | <b>6 356 002</b>   | <b>5 573 090</b>  |

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## Notes to the Annual Financial Statements

| Figures in Rand  | 2019               | 2018             |
|--|--------------------|------------------|
| <b>13. Consumer debtors (continued)</b>                                  |                    |                  |
| <b>Electricity</b>   |                    |                  |
| Current (0 -30 days)   | 1 723 997          | 59 239           |
| 31 - 60 days   | 285 174            | 38 514           |
| 61 - 90 days   | 249 500            | 407 581          |
| 91 - 120 days  | 121 086            | 290 514          |
| 121 - 180 days   | 219 791            | 4 442 847        |
| 181 - 365 days   | 174 507            | (77 912)         |
| > 365 days   | 2 048 737          | (471 831)        |
|  | <b>4 822 792</b>   | <b>4 688 952</b> |
| <b>Refuse</b>  |                    |                  |
| Current (0 -30 days)   | 118 704            | 38 290           |
| 31 - 60 days   | 2 030              | 89 340           |
| 61 - 90 days   | 42 741             | 25 217           |
| 91 - 120 days  | 36 570             | 57 338           |
| 121 - 365 days   | 69 062             | 997 926          |
| > 365 days   | 975 653            | (484 888)        |
|  | <b>1 244 760</b>   | <b>723 223</b>   |
| <b>Creditors with debit balance</b>                                      |                    |                  |
| Current (0 -30 days)   | 46 035             | -                |
| <b>Property rentals</b>  |                    |                  |
| Current (0 -30 days)   | 25 399             | 160 915          |
| 31 - 60 days   | 47 386             | -                |
| 61 - 90 days   | 20 139             | -                |
| 91 - 120 days  | 18 444             | -                |
| 121 - 365 days   | 106 141            | -                |
| > 365 days   | 70 941             | -                |
|  | <b>288 450</b>     | <b>160 915</b>   |
| <b>Reconciliation of allowance for impairment</b>                        |                    |                  |
| Balance at beginning of the year   | (956 719)          | (693 612)        |
| Contributions to allowance   | (347 726)          | (263 107)        |
|  | <b>(1 304 445)</b> | <b>(956 719)</b> |
| <b>Receivables from Exchange Transaction pledged as security</b>         |                    |                  |
| There are no Receivables from Exchange Transactions pledged as security. |                    |                  |
| <b>14. Cash and cash equivalents</b>                                     |                    |                  |
| Cash and cash equivalents consist of:                                    |                    |                  |
| Cash on hand   | 1 374              | 753              |
| Bank balances  | 2 692 419          | 3 679 447        |
|  | <b>2 693 793</b>   | <b>3 680 200</b> |
| <b>Cash and cash equivalents pledged as guarantee</b>                    |                    |                  |
| First National Bank - Fixed Deposit - 712450040078                       | 1 540 000          | 1 540 000        |
| Pledged as a guarantee to Eskom  |                    |                  |

# Mthonjaneni Local Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
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|-----------------|------|------|

### 14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

| Account number / description                       | Bank statement balances |                  |                   | Cash book balances |                  |                   |
|--|-------------------------|------------------|-------------------|--------------------|------------------|-------------------|
|  | 30 June 2019            | 30 June 2018     | 30 June 2017      | 30 June 2019       | 30 June 2018     | 30 June 2017      |
| First National Bank - Current (Main) - 54980006117 | 1 065 038               | 1 528 893        | 3 669 170         | 1 065 058          | 1 551 189        | 3 690 198         |
| First National Bank- Current - 62330092470         | 32 753                  | 3 550            | 66 995            | 32 753             | 3 550            | 66 995            |
| Investec Bank - Call - 1100435097                  | 47 384                  | 59 405           | 11 099 769        | 47 384             | 59 405           | 11 099 769        |
| First National Bank - Fixed Deposit - 712450040078 | 1 540 000               | 1 540 000        | 1 540 000         | 1 540 000          | 1 540 000        | 1 540 000         |
| First National Bank - Call Account - 62051262146   | 994                     | 499 350          | 499 543           | 994                | 499 351          | 499 543           |
| First National Bank - Call - 62532053204           | 1 115                   | 25 952           | 3 385 187         | 1 115              | 25 952           | 3 385 187         |
| First National Bank - Call Account - 62771806092   | 2 385                   | -                | -                 | 2 385              | -                | -                 |
| First National Bank - Call Account - 62771807016   | 2 730                   | -                | -                 | 2 730              | -                | -                 |
| <b>Total</b>                                       | <b>2 692 399</b>        | <b>3 657 150</b> | <b>20 260 664</b> | <b>2 692 419</b>   | <b>3 679 447</b> | <b>20 281 692</b> |

### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

|             |        |        |
|-------------|--------|--------|
| COGTA Grant | 17 134 | 17 134 |
|-------------|--------|--------|

# Mthonjaneni Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

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### 16. Provisions

#### Reconciliation of provisions - 2019

|                              | Opening Balance  | Additions        | Utilised during the year | Reversed during the year | Change in discount factor | Total            |
|------------------------------|------------------|------------------|--------------------------|--------------------------|---------------------------|------------------|
| Environmental rehabilitation | 3 327 283        | 347 127          | -                        | -                        | 120 780                   | 3 795 190        |
| Provision for bonus          | 500 514          | -                | -                        | (88 423)                 | -                         | 412 091          |
| Provision for leave pay      | 2 760 441        | 612 894          | (164 619)                | -                        | -                         | 3 208 716        |
| Employee benefit cost        | 1 780 000        | 546 636          | (239 636)                | -                        | -                         | 2 087 000        |
|                              | <b>8 368 238</b> | <b>1 506 657</b> | <b>(404 255)</b>         | <b>(88 423)</b>          | <b>120 780</b>            | <b>9 502 997</b> |

#### Reconciliation of provisions - 2018

|                              | Opening Balance  | Additions        | Utilised during the year | Change in discount factor | Total            |
|------------------------------|------------------|------------------|--------------------------|---------------------------|------------------|
| Environmental rehabilitation | 3 157 206        | 71 888           | -                        | 98 189                    | 3 327 283        |
| Provision for bonus          | 579 121          | -                | (78 607)                 | -                         | 500 514          |
| Provision for leave pay      | 2 366 801        | 595 671          | (202 031)                | -                         | 2 760 441        |
| Employee benefit cost        | 1 482 000        | 360 794          | (62 794)                 | -                         | 1 780 000        |
|                              | <b>7 585 128</b> | <b>1 028 353</b> | <b>(343 432)</b>         | <b>98 189</b>             | <b>8 368 238</b> |

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Non-current liabilities | 5 882 190        | 5 107 283        |
| Current liabilities     | 3 620 807        | 3 260 955        |
|                         | <b>9 502 997</b> | <b>8 368 238</b> |

### 17. Payables from exchange transactions

|   |                   |                   |
|---|-------------------|-------------------|
| Trade payables                                      | 18 434 482        | 7 633 084         |
| Payments received in advanced - contract in process | 927 035           | 927 035           |
| Retentions  | 3 427 085         | 1 470 315         |
| Third parties - payroll                             | 2 993 579         | 1 829 573         |
| Other payables                                      | 874 511           | 881 792           |
|   | <b>26 656 692</b> | <b>12 741 799</b> |

### 18. Consumer deposits

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Electricity             | 689 916          | 745 726          |
| Other Consumer Deposits | 331 096          | 334 924          |
|                         | <b>1 021 012</b> | <b>1 080 650</b> |

### 19. Revenue

|                                    |                    |                    |
|------------------------------------|--------------------|--------------------|
| Service charges                    | 22 284 343         | 21 984 542         |
| Rental of facilities and equipment | 261 926            | 226 610            |
| Licenses and permits               | 1 543 785          | 1 671 732          |
| Other income                       | 277 050            | 1 065 676          |
| Interest received - investment     | 695 572            | 1 367 140          |
| Property rates                     | 12 125 009         | 11 431 084         |
| Property rates - penalties imposed | 1 328 042          | 1 158 439          |
| Government grants & subsidies      | 113 421 000        | 111 648 000        |
| Fines, Penalties and Forfeits      | 426 689            | 9 006 350          |
|                                    | <b>152 363 416</b> | <b>159 559 573</b> |

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

| Figures in Rand   | 2019               | 2018               |
|---|--------------------|--------------------|
| <b>19. Revenue (continued)</b>  |                    |                    |
| <b>The amount included in revenue arising from exchanges of goods or services are as follows:</b> |                    |                    |
| Service charges   | 22 284 343         | 21 984 542         |
| Rental of facilities and equipment  | 261 926            | 226 610            |
| Licenses and permits  | 1 543 785          | 1 671 732          |
| Other income - (rollup)   | 277 050            | 1 065 676          |
| Interest received - investment  | 695 572            | 1 367 140          |
|   | <b>25 062 676</b>  | <b>26 315 700</b>  |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b>       |                    |                    |
| <b>Taxation revenue</b>   |                    |                    |
| Property rates  | 12 125 009         | 11 431 084         |
| Property rates - penalties imposed  | 1 328 042          | 1 158 439          |
| <b>Transfer revenue</b>   |                    |                    |
| Government grants & subsidies   | 113 421 000        | 111 648 000        |
| Fines, Penalties and Forfeits   | 426 689            | 9 006 350          |
|   | <b>127 300 740</b> | <b>133 243 873</b> |
| <b>20. Service charges</b>  |                    |                    |
| Service charges - Reconnection Fees   | 134 263            | 512 520            |
| Sale of electricity   | 20 367 745         | 19 976 469         |
| Refuse removal  | 1 782 335          | 1 495 553          |
|   | <b>22 284 343</b>  | <b>21 984 542</b>  |
| <b>21. Rental of facilities and equipment</b>   |                    |                    |
| <b>Facilities and equipment</b>   |                    |                    |
| Commonage rent  | -                  | 139 284            |
| Hire of hall  | 261 926            | 61 053             |
| Rental income   | -                  | 26 273             |
|   | <b>261 926</b>     | <b>226 610</b>     |
| <b>22. Licenses and permits</b>   |                    |                    |
| Learner Driver Application  | 252 486            | 346 631            |
| Motor Licenses  | 1 274 486          | 1 304 598          |
| Business Licenses   | 3 965              | 1 491              |
| Taxi rank Permits   | 12 848             | 19 012             |
|   | <b>1 543 785</b>   | <b>1 671 732</b>   |
| <b>23. Fines, Penalties and Forfeits</b>  |                    |                    |
| Traffic Fines   | 426 689            | 9 006 350          |

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## Notes to the Annual Financial Statements

| Figures in Rand               | 2019           | 2018             |
|-------------------------------|----------------|------------------|
| <b>24. Other Income</b>       |                |                  |
| Sundry income                 | 193 775        | 239 345          |
| Building plan fees            | 10 811         | 12 062           |
| Cemetery fees                 | 26 481         | 24 484           |
| Rates clearance certificate   | 5 647          | 211              |
| Hoarding                      | 19 524         | 10 443           |
| Photocopying                  | 20 812         | 20 698           |
| Valuation certificates        | -              | 105              |
| Insurance claims              | -              | 758 328          |
|                               | <b>277 050</b> | <b>1 065 676</b> |
| <b>25. Investment revenue</b> |                |                  |
| Interest revenue              |                |                  |
| Short term deposits           | 199 838        | 684 487          |
| Bank                          | 495 734        | 682 653          |
|                               | <b>695 572</b> | <b>1 367 140</b> |

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## Notes to the Annual Financial Statements

| Figures in Rand                    | 2019              | 2018              |
|------------------------------------|-------------------|-------------------|
| <b>26. Property rates</b>          |                   |                   |
| <b>Rates received</b>              |                   |                   |
| Residential                        | 1 662 095         | 1 528 955         |
| Commercial                         | 5 429 596         | 5 397 858         |
| State                              | 3 646 121         | 3 750 907         |
| Agriculture                        | 1 168 181         | 557 272           |
| Public service infrastructure      | 31                | 85                |
| Vacant land                        | 218 985           | 196 007           |
|                                    | <b>12 125 009</b> | <b>11 431 084</b> |
| Property rates - penalties imposed | 1 328 042         | 1 158 439         |
|                                    | <b>13 453 051</b> | <b>12 589 523</b> |

### Valuations

|                               |                      |                      |
|-------------------------------|----------------------|----------------------|
| Residential                   | 334 694 000          | 332 664 000          |
| Commercial                    | 389 477 000          | 387 567 000          |
| State                         | 290 910 000          | 290 910 000          |
| Municipal Properties          | 62 321 532           | 62 321 532           |
| Places of worship             | 9 766 000            | 9 730 000            |
| Agriculture                   | 905 373 002          | 905 373 000          |
| Public Service Infrastructure | 23 000               | 23 000               |
| Vacant Land                   | 12 620 688           | 13 086 688           |
|                               | <b>2 005 185 222</b> | <b>2 001 675 220</b> |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2020.

### Property Rates Tariffs:

Cent amount in the Rand determined for the relevant property category:

|                                 |      |      |
|---------------------------------|------|------|
| • Agriculture                   | 0.34 | 0.32 |
| • Commercial                    | 1.75 | 1.62 |
| • Industrial                    | 1.72 | 1.62 |
| • Public Service Infrastructure | 0.34 | 0.32 |
| • Public Service Purpose        | 1.38 | 1.30 |
| • State Owned                   | 1.38 | 1.30 |
| • Residential                   | 1.38 | 1.30 |
| • Rural Tourism and Hospitality | 1.38 | 1.30 |
| • State Trust Land              | 1.72 | 1.62 |
| • Urban Tourism and Hospitality | 1.38 | 1.30 |
| • Vacant Land                   | 1.72 | 1.62 |



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### **Notes to the Annual Financial Statements**

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

#### **26. Property rates (continued)**

**Rebates:**

|                                 |     |     |
|---------------------------------|-----|-----|
| • Residential Properties        | 20% | 20% |
| • State Owned                   | 0%  | 0%  |
| • Agriculture                   | 18% | 18% |
| • Public Service Infrastructure | 30% | 30% |
| • All Other Properties          | 18% | 18% |

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## Notes to the Annual Financial Statements

| Figures in Rand  | 2019               | 2018               |
|--|--------------------|--------------------|
| <b>27. Government grants and subsidies</b>                       |                    |                    |
| <b>Operating grants</b>  |                    |                    |
| Equitable share  | 70 979 000         | 67 317 000         |
| Expanded Public Works Programme (EPWP)                           | 1 808 000          | 2 222 000          |
| Financial Management Grant (FMG)                                 | 2 850 000          | 2 850 000          |
| KZN Libraries, Archives & Museums Grant                          | 1 035 000          | 771 000            |
| Municipal Demarcation Transition Grant                           | -                  | 6 210 000          |
|  | <b>76 672 000</b>  | <b>79 370 000</b>  |
| <b>Capital grants</b>  |                    |                    |
| Municipal Infrastructure Grant                                   | 21 749 000         | 24 278 000         |
| Integrated National Electrification Grant (INEG)                 | 15 000 000         | 8 000 000          |
|  | <b>36 749 000</b>  | <b>32 278 000</b>  |
| <b>Total</b>   | <b>113 421 000</b> | <b>111 648 000</b> |
| <b>Municipal Infrastructure Grant (MIG)</b>                      |                    |                    |
| Current-year receipts  | 21 749 000         | 24 278 000         |
| Conditions met - transferred to revenue                          | (21 749 000)       | (24 278 000)       |
|  | -                  | -                  |
| <b>Integrated National Electrification Grant (INEG)</b>          |                    |                    |
| Current-year receipts  | 15 000 000         | 8 000 000          |
| Conditions met - transferred to revenue                          | (15 000 000)       | (8 000 000)        |
|  | -                  | -                  |
| <b>Demarcation Transition Grant</b>                              |                    |                    |
| Current-year receipts  | -                  | 3 424 000          |
| Current Year Receipts -Reimbursement of Prior Period Expenditure | -                  | 2 786 000          |
| Conditions met - transferred to revenue                          | -                  | (6 210 000)        |
|  | -                  | -                  |

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### Notes to the Annual Financial Statements

| Figures in Rand  | 2019        | 2018        |
|--|-------------|-------------|
| <b>27. Government grants and subsidies (continued)</b> |             |             |
| <b>Library Grant</b>                                   |             |             |
| Current-year receipts                                  | 1 035 000   | 771 000     |
| Provincialisation of Libraries Grant                   | (838 000)   | (771 000)   |
| Community Library Grant                                | (197 000)   | -           |
|  | -           | -           |
| <b>COGTA Grant</b>                                     |             |             |
| Balance unspent at beginning of year                   | 17 134      | 17 134      |
| <b>Expanded Public Works Programme Grant</b>           |             |             |
| Current-year receipts                                  | 1 808 000   | 2 222 000   |
| Conditions met - transferred to revenue                | (1 808 000) | (2 222 000) |
|  | -           | -           |
| <b>Financial Management Grant</b>                      |             |             |
| Current-year receipts                                  | 2 850 000   | 2 850 000   |
| Conditions met - transferred to revenue                | (2 850 000) | (2 850 000) |
|  | -           | -           |

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## Notes to the Annual Financial Statements

| Figures in Rand  | 2019              | 2018              |
|--|-------------------|-------------------|
| <b>28. Employee related costs</b>                                  |                   |                   |
| Basic  | 32 863 925        | 27 016 800        |
| Bonus  | 2 001 029         | 1 826 755         |
| Medical aid - company contributions                                | 2 151 435         | 1 915 124         |
| UIF  | 275 228           | 279 146           |
| SALGA  | 13 676            | 13 274            |
| Leave pay provision charge   | 164 619           | 476 597           |
| Allowances   | 1 837 636         | 1 943 397         |
| Overtime   | 2 815 772         | 1 759 122         |
| Defined contribution plans   | 4 093 144         | 3 521 782         |
| Travel, motor car, accommodation, subsistence and other allowances | 3 306 261         | 3 594 411         |
| Long-service awards  | 239 636           | 62 794            |
| Housing benefits and allowances                                    | 927 364           | 109 441           |
| Skills Development Levy  | 524 703           | 394 483           |
|  | <b>51 214 428</b> | <b>42 913 126</b> |
| <b>Remuneration of Municipal Manager - P.P Sibiya</b>              |                   |                   |
| Annual Remuneration  | 1 013 285         | 903 518           |
| Car Allowance  | 150 000           | 150 000           |
| Contributions to UIF, Medical and Pension Funds                    | 1 785             | 1 785             |
| Remote Allowance   | 46 531            | 42 191            |
| Skills   | 11 798            | 10 777            |
|  | <b>1 223 399</b>  | <b>1 108 271</b>  |
| <b>Remuneration of Chief Financial Officer - K. Mthethwa</b>       |                   |                   |
| Annual Remuneration  | -                 | 604 023           |
| Car Allowance  | -                 | 233 512           |
| Contributions to UIF, Medical and Pension Funds                    | -                 | 1 785             |
| Remote Allowance   | -                 | 33 501            |
| Skills   | -                 | 9 095             |
| Other  | -                 | 63 016            |
|  | <b>-</b>          | <b>944 932</b>    |
| <b>Remuneration of Director Technical Services - S.F Mchunu</b>    |                   |                   |
| Annual Remuneration  | 601 459           | 331 497           |
| Car Allowance  | 180 000           | 105 000           |
| Contributions to UIF, Medical and Pension Funds                    | 1 785             | 1 041             |
| Remote Allowance   | 31 258            | 17 300            |
| Cell Phone Allowance   | 18 000            | 9 000             |
| Other- Travel, Accommodation and Incidentals                       | 26 742            | 4 427             |
| Skills   | 7 949             | -                 |
|  | <b>867 193</b>    | <b>468 265</b>    |
| <b>Remuneration of Acting Chief Financial Officer - N.M Myeni</b>  |                   |                   |
| Acting Allowance   | 41 624            | -                 |
| <b>Remuneration of Director Corporate Service - P.M Manqele</b>    |                   |                   |
| Annual Remuneration  | -                 | 75 134            |
| Car Allowance  | -                 | 20 645            |
| Contributions to UIF, Medical and Pension Funds                    | -                 | 387               |

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| Figures in Rand   | 2019              | 2018              |
|---|-------------------|-------------------|
| <b>28. Employee related costs (continued)</b>   |                   |                   |
| Skills  | -                 | 1 388             |
| Other   | -                 | 3 745             |
| Other   | -                 | 31 545            |
|   | -                 | <b>132 844</b>    |
| <b>Remuneration of Acting Director Corporate Services - N.B Mathe</b>   |                   |                   |
| Acting allowance  | 34 360            | -                 |
| <b>Remuneration of Director Community Services - Z.S Mthethwa</b>   |                   |                   |
| Annual Remuneration   | 646 290           | 543 403           |
| Car Allowance   | 150 000           | 150 000           |
| Contributions to UIF, Medical and Pension Funds   | 1 785             | 1 785             |
| Remote Allowance  | 34 732            | 31 305            |
| Housing Allowance   | 72 000            | 72 000            |
| Skills  | 8 730             | 7 771             |
|   | <b>913 537</b>    | <b>806 264</b>    |
| <b>Remuneration of Acting Director Community Services - F.S Mazibuko</b>  |                   |                   |
| Acting Allowance  | 29 987            | -                 |
| <b>Remuneration of Acting Director Community Services - B.C.X Dladla</b>  |                   |                   |
| Acting Allowance  | 30 344            | -                 |
| <b>29. Remuneration of councillors</b>  |                   |                   |
| Hon. Mayor  | 771 235           | 424 084           |
| Deputy Mayor  | 626 728           | 348 937           |
| Executive Committee Members   | 1 164 840         | 987 856           |
| Hon. Speaker  | 410 220           | 348 194           |
| All Other Councillors   | 5 376 971         | 5 528 208         |
|   | <b>8 349 994</b>  | <b>7 637 279</b>  |
| <b>In-kind benefits</b>   |                   |                   |
| The Hon. Mayor and Deputy Mayor are full time. Hon. Speaker and Executive Committee Members are part-time. Hon. Mayor, Hon Speaker and Deputy Mayor, each are provided with an office and secretarial support at the cost of the Council. |                   |                   |
| The Hon. Mayor, Hon. Speaker and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.   |                   |                   |
| The Hon. Mayor, Deputy Mayor and Hon. Speaker each have a driver and a full-time bodyguard.   |                   |                   |
| <b>30. Depreciation and amortisation</b>  |                   |                   |
| Property, plant and equipment   | 17 467 123        | 15 212 299        |
| Investment property   | 5 421             | -                 |
| Intangible assets   | 16 356            | 45 501            |
|   | <b>17 488 900</b> | <b>15 257 800</b> |

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| Figures in Rand  | 2019              | 2018              |
|--|-------------------|-------------------|
| <b>31. Bulk purchases</b>  |                   |                   |
| Electricity - Eskom  | 22 302 722        | 21 540 968        |
| <b>32. Contracted services</b>                                   |                   |                   |
| Operating Leases   | 1 441 953         | 759 957           |
| Other Contractors  | 4 900 869         | 3 847 304         |
| Specialist Services  | 1 297 171         | 1 180 557         |
| <b>33. General expenses</b>                                      |                   |                   |
| Advertising & Publicity  | 4 124 473         | 4 296 498         |
| Assessment rates & municipal charges                             | 74 324            | 20 313            |
| Assets expensed  | 72 813            | 581 643           |
| Auditors remuneration  | 2 318 286         | 2 379 248         |
| Bank charges   | 97 512            | 114 788           |
| Bursaries  | 551 248           | 592 830           |
| Conferences and seminars   | 147 253           | -                 |
| Consulting and professional fees                                 | 5 802 428         | 4 803 666         |
| Consumables  | 1 628 088         | 1 610 668         |
| Contribution to Impairment (Rates, Refuse, Traffic, Electricity) | 2 790 409         | 3 967 302         |
| Contribution to other provision                                  | 1 134 759         | 783 110           |
| Community development and training                               | 1 500 195         | 2 095 997         |
| Traffic Fines Written-off  | 189 625           | -                 |
| Electricity  | 1 721 059         | 526 342           |
| EPWP Stipends  | 2 762 526         | 2 999 193         |
| Fuel and oil   | 1 673 909         | 1 764 133         |
| Hire   | 265 355           | 113 466           |
| IT expenses  | 117 831           | 56 268            |
| Packaging  | 6 547             | 5 799             |
| Inspection fees  | -                 | 23 059            |
| Insurance  | 445 528           | 412 683           |
| LED Projects   | 319 506           | 1 221 793         |
| Magazines, books and periodicals                                 | 8 999             | 258 204           |
| Management fees  | 158 883           | 41 313            |
| Medical expenses   | -                 | 28 430            |
| Other expenses   | 139 944           | 4 803             |
| Indigent Burial  | 868 088           | 910 937           |
| Printing and stationery  | 543 863           | 1 210 058         |
| Protective clothing  | 739 118           | 1 229 924         |
| Public participation   | 995 239           | 359 497           |
| Refuse   | 308 000           | 615 329           |
| Repairs and maintenance  | 4 596 204         | 3 956 652         |
| Security (Guarding of municipal property)                        | 3 395 462         | 5 393 180         |
| Property Valuation Fees  | 181 849           | 279 695           |
| Staff welfare  | 332 185           | 259 709           |
| Subscriptions and membership fees                                | 563 699           | 502 400           |
| Telephone and fax  | 937 689           | 1 327 351         |
| Training   | 664 877           | 776 435           |
| Travel and subsistence   | 1 522 370         | 1 375 235         |
| Workmen's compensation   | 249 004           | 243 798           |
| Ward Committee   | 1 811 900         | 1 951 047         |
| Water  | 191 356           | 74 736            |
|  | <b>45 952 403</b> | <b>49 167 532</b> |

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| <b>34. Fair value adjustments</b>                      |                   |                   |
| Biological assets - (Fair value model)                 | 1 256 474         | (1 260 378)       |
| <b>35. Auditors' remuneration</b>                      |                   |                   |
| Fees   | 2 318 286         | 2 379 248         |
| <b>36. Cash generated from operations</b>              |                   |                   |
| (Deficit) surplus                                      | (351 366)         | 15 973 672        |
| <b>Adjustments for:</b>                                |                   |                   |
| Depreciation and amortisation                          | 17 488 900        | 15 257 800        |
| Fair value adjustments                                 | (1 256 474)       | 1 260 378         |
| Movements in retirement benefit assets and liabilities | 681 000           | 21 000            |
| Movements in provisions                                | 1 134 759         | 783 110           |
| Other non-cash items                                   | (31 106)          | 170 789           |
| <b>Changes in working capital:</b>                     |                   |                   |
| Inventories  | 98 074            | (124 877)         |
| Consumer debtors                                       | (828 947)         | (1 289 802)       |
| Other receivables from non-exchange transactions       | 137 286           | (8 787 471)       |
| Payables from exchange transactions                    | 13 914 893        | 2 203 949         |
| VAT  | 3 073 455         | (364 367)         |
| Consumer deposits                                      | (59 638)          | 29 039            |
|  | <b>34 000 836</b> | <b>25 133 220</b> |

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### 37. Financial Instruments disclosure

#### Categories of financial instruments

##### 2019

#### Financial assets

|  | At fair value    | At amortised cost | Total             |
|--|------------------|-------------------|-------------------|
| Other receivables from non-exchange transactions | -                | 37 481 545        | 37 481 545        |
| Receivables from exchange transactions           | -                | 6 394 413         | 6 394 413         |
| Cash and cash equivalents                        | 2 693 793        | -                 | 2 693 793         |
|  | <b>2 693 793</b> | <b>43 875 958</b> | <b>46 569 751</b> |

#### Financial liabilities

|                                     | At amortised cost | Total             |
|-------------------------------------|-------------------|-------------------|
| Payables from exchange transactions | 26 616 306        | 26 616 306        |
| Other financial liabilities         | 13 977 487        | 13 977 487        |
|                                     | <b>40 593 793</b> | <b>40 593 793</b> |

##### 2018

#### Financial assets

|  | At fair value    | At amortised cost | Total             |
|--|------------------|-------------------|-------------------|
| Other receivables from non-exchange transactions | -                | 37 657 243        | 37 657 243        |
| Receivables from exchange transactions           | -                | 5 573 090         | 5 573 090         |
| Cash and cash equivalents                        | 3 680 200        | -                 | 3 680 200         |
|  | <b>3 680 200</b> | <b>43 230 333</b> | <b>46 910 533</b> |

#### Financial liabilities

|                                     | At amortised cost | Total             |
|-------------------------------------|-------------------|-------------------|
| Payables from exchange transactions | 12 741 799        | 12 741 799        |
| Other financial liabilities         | 12 227 023        | 12 227 023        |
|                                     | <b>24 968 822</b> | <b>24 968 822</b> |



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### 38. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

|                                 |            |            |
|---------------------------------|------------|------------|
| • Property, plant and equipment | 35 600 007 | 25 666 527 |
|---------------------------------|------------|------------|

##### Total capital commitments

|   |            |            |
|---|------------|------------|
| Already contracted for but not provided for | 35 600 007 | 25 666 527 |
|---|------------|------------|

#### Operating leases - as Lessee (expense)

##### Minimum lease payments due

|                                     |         |           |
|-------------------------------------|---------|-----------|
| - within one year                   | 509 918 | 1 277 023 |
| - in second to fifth year inclusive |         | 2 228 945 |
|                                     | 509 918 | 3 505 968 |

Operating lease payments represent rentals payable by the municipality for certain of its telephone equipment, photocopiers and motor vehicles. No contingent rent is payable.

#### Operating leases - as Lessor (income)

##### Minimum lease payments due

|                                     |         |         |
|-------------------------------------|---------|---------|
| - within one year                   | 186 778 | 67 668  |
| - in second to fifth year inclusive | 246 667 | 53 111  |
|                                     | 433 445 | 120 779 |

Certain commonage and vacant land is held to generate rental income. Lease agreements are non-cancellable and there are no contingent rents receivable.

### 39. Contingencies

Litigation is in the process against the Municipality relating to a dispute with MEC for CoGTA KZN, concerning the appointment of Senior Managers, and the Legal Council's estimate of the financial exposure is set at an amount of R 400 000. The municipality's Lawyers and Management consider the likelihood of the action against the Municipality being unsuccessful as likely, and the case should be resolved before the end year 2020.

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### 40. Related parties

#### Related party balances

The following councillors and key management owed the municipality in respect of traffic fines as at 30 June 2019

#### Councillors

|  |               |               |
|--|---------------|---------------|
| Cllr S.B.K. Biyela (Mayor)                     | 500           | 500           |
| Cllr P.E. Ntombela (Deputy Mayor)              | 2 350         | 2 350         |
| Cllr N.A. Mbatha (Speaker)                     | 2 900         | 2 900         |
| Cllr M.N. Ndlangamandla                        | 4 950         | 4 950         |
| Cllr H.K.L. Zungu                              | 10 250        | 10 250        |
| Cllr E.M. Masikane                             | 1 850         | 1 850         |
| Cllr J. Mlawu                                  | 1 450         | 1 450         |
| Cllr M.E. Zulu (Deceased - 04 July 2018)       | -             | 3 100         |
| Cllr B.M.T. Sibiya                             | 5 900         | 5 900         |
| Cllr D.F. Xulu                                 | 600           | 600           |
| Cllr T.F. Zincume                              | 150           | 150           |
| Cllr D.M.O. Ngcobo (Deceased - 02 March 2018)  | -             | 6 950         |
| Cllr T.E. Mpungose                             | 200           | 200           |
| Cllr D.M. Dludla                               | 5 600         | 5 600         |
| Cllr E.M. Mthembu (Terminated - 28 March 2018) | -             | 3 850         |
| Cllr Z.A. Sibiya                               | 400           | 400           |
|  | <b>37 100</b> | <b>51 000</b> |

#### Directors

|  |               |               |
|--|---------------|---------------|
| Mr P.P. Sibiya (Municipal Manager)                       | 26 000        | 26 000        |
| Mr Z.S. Mthethwa (Director Community Services)           | 5 450         | 5 450         |
| Mr K.N. Mthethwa (Chief Financial Officer) - Resigned    | -             | 1 900         |
| Mr S. Mchunu (Director Technical Services)               | 950           | 950           |
| Mr P.M. Manqele (Director Corporate Services) - Resigned | -             | 7 400         |
|  | <b>32 400</b> | <b>41 700</b> |

As per Section 124 (1)(b) of the MFMA, the following Councillors owed the Municipality in respect of property rates and service charges for a period of more than 90 days as at 30 June 2019.

#### Councillors

|                         | 2019          | 2018         |
|-------------------------|---------------|--------------|
| Cllr M.N. Ndlangamandla | 2 739         | -            |
| Cllr N.A. Mbatha        | 5 304         | -            |
| Cllr E.M. Masikane      | 4 358         | 2 660        |
| Cllr D.M. Dludla        | -             | 221          |
|                         | <b>12 401</b> | <b>2 881</b> |

### 41. Prior period errors

The following prior period error occurred:

During the current financial period, the Municipality obtained subsequent information relating to a project which was completed during the financial period ended 30 June 2018. This resulted in misstatements being identified that have subsequently been corrected:

Presented below are those items contained in the Statements of Financial Position, Statement of Financial Performance and the Statement of Changes in Net Assets that have been affected by prior-year adjustments:

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### 41. Prior period errors (continued)

#### Statement of financial position

2019

Increase in Accumulated Depreciation

| As previously reported | Correction of error | Restated     |
|------------------------|---------------------|--------------|
| (52 742 792)           | (13 220)            | (52 756 012) |

#### Statement of financial performance

2019

Increase in Depreciation

| As previously reported | Correction of error | Restated   |
|------------------------|---------------------|------------|
| 15 244 580             | 13 220              | 15 257 800 |

#### Statement of Changes in Net Asset

(Increase)/Decrease in Accumulated Surplus

| As previously reported | Correction of error | Restated      |
|------------------------|---------------------|---------------|
| (379 309 645)          | 13 220              | (379 296 425) |

### 42. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Financial liabilities exposed to credit risk at year end are as follows:

|                       |            |            |
|-----------------------|------------|------------|
| Financial liabilities | 39 843 920 | 24 867 180 |
|-----------------------|------------|------------|

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

|                             |                  |                  |
|-----------------------------|------------------|------------------|
| Cash and cash equivalents   | 2 693 793        | 3 659 172        |
| Trade and other receivables | 6 402 037        | 5 573 090        |
|                             | <u>9 095 830</u> | <u>9 232 262</u> |

### 43. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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### 43. Going concern (continued)

The Municipality experienced cash flow challenges during the year ended 30 June 2019. The major creditor was Eskom for bulk electricity purchases with an outstanding balance of R7 462 946. The Municipality has managed to change from Rural Night Save to Mini Flex Tariff, which will result in saving of tariff charge of about R8 000 000 per annum, and which will then assist the Municipality to decrease the amount of payables going forward.

The Municipality was also owed an amount of R14 000 000 at year-end in property rates debtors by Organs of State, however we have intensified the collection measures to alleviate the strain in cash flow. The Municipality has further developed and adopted the Financial Recovery Plan and Cost Containment Regulations. The Council set and adopted these on 27 June 2019, implementation of these measures will assist to improve the cash flow position.

(a) The Accounting Officer continue to procure funding for the ongoing operations for the Municipality.

(b) The Municipality have not lost any of the key customers or principal suppliers.

(c) The Municipality does not experience Labour difficulties.

(d) The Municipality does not have shortage of important suppliers.

(e) Financial results, bank account balance and net asset are all positive.

### 44. Unauthorised expenditure

|  |                   |                   |
|--|-------------------|-------------------|
| Opening balance as previously reported       | 33 129 821        | 31 620 916        |
| Add: Unauthorised Expenditure - current year | -                 | 1 508 905         |
| <b>Subtotal</b>                              | <b>33 129 821</b> | <b>33 129 821</b> |
| <b>Closing balance</b>                       | <b>33 129 821</b> | <b>33 129 821</b> |

### 45. Fruitless and wasteful expenditure

|  |                |               |
|--|----------------|---------------|
| Opening balance as previously reported                 | 56 504         | 56 504        |
| <b>Subtotal</b>  | <b>56 504</b>  | <b>56 504</b> |
| Add: Fruitless and Wasteful Expenditure - Current year | 341 816        | -             |
| <b>Closing balance</b>                                 | <b>398 320</b> | <b>56 504</b> |

Fruitless and wasteful expenditure comprises of interest on overdue accounts (R329 318), no show charges for accommodation and cancellation (R7 498) as well as traffic offence fees of (R5 000).

### 46. Irregular expenditure

|  |                    |                    |
|--|--------------------|--------------------|
| Opening balance  | 110 555 332        | 74 311 830         |
| Add: Irregular Expenditure - current year                          | 23 546 083         | 36 243 504         |
| <b>Subtotal</b>  | <b>134 101 415</b> | <b>110 555 334</b> |
| Less: Amount certified by Council as irrecoverable and written off | (46 178 407)       | -                  |
| <b>Closing balance</b>   | <b>87 923 008</b>  | <b>110 555 334</b> |

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#### 48. Irregular expenditure (continued)

##### Details of Irregular expenditure due to non-compliance with Section 29(2) Regulations

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| Dolphin Coast Solutions             | 256 999           | 321 445           |
| Fidelity Cash Solutions             | 70 174            | 81 783            |
| Induna Logistics                    | 382 357           | 6 784 586         |
| Indwe Risk Services                 | 512 357           | 454 059           |
| Konica Minolta Zululand             | 174 496           | 282 875           |
| Mfezi Security                      | 2 291 233         | 1 797 550         |
| TMT Services                        | 275 884           | 1 192 454         |
| Muffler & Towbar                    | -                 | 14 946            |
| Chico Man Trading                   | -                 | 975 000           |
| Buthelezi Mshali Mzulwini Attorneys | 886 888           | 787 137           |
| Jabulani Theresa Construction       | 1 138 037         | 300 001           |
| Silo Group Holdings                 | 3 351 237         | 701 848           |
| Ethala Construction                 | 1 115 021         | 2 221 622         |
| Somkhanda Plant Hire                | 6 109 608         | 3 028 944         |
| Bargain Uniform                     | 540 246           | -                 |
| Sukumasakhe 968 Trading             | 1 526 539         | -                 |
| Ntugani Construction                | 3 746 354         | -                 |
| <b>Total</b>                        | <b>22 377 430</b> | <b>18 944 250</b> |

The Irregular Expenditure is as a result of appointments that were adjudicated by the Bid Committee comprising of three Senior Managers instead of the prescribed four Senior Managers as per Section 29(2) of the SCM Regulations.

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| <b>46. Irregular expenditure (continued)</b>                                       |                  |          |
| <b>Details of irregular expenditure due to non-compliance with tax regulations</b> |                  |          |
| SollyM   | 71 020           | -        |
| KFC Melmoth  | 218 680          | -        |
| Coalition Trading  | 70 400           | -        |
| Mthonjaneni Transport  | 120 000          | -        |
| Mjwaqu Mzamo (Pty) Ltd   | 112 683          | -        |
| Judy Magwaza Trading   | 98 700           | -        |
| Selwels Sports   | 257 920          | -        |
| BP Driving School  | 219 250          | -        |
|  | <b>1 168 653</b> | <b>-</b> |

The above expenditure was in non-compliance with regulations on tax compliance.

### Details of irregular expenditure due to non-compliance with regulations on local production and content

|   |          |                   |
|---|----------|-------------------|
| Textile, Clothing, Leather and Footwear | -        | 2 187 735         |
| Steel power pylons                      | -        | 230 540           |
| Furniture                               | -        | 149 340           |
| Electrical and Telecoms cable products  | -        | 12 105 034        |
|   | <b>-</b> | <b>14 672 649</b> |

The above expenditure was in noncompliance with regulations on local production and content for designated sectors.

Details of irregular expenditure due to non-compliance with MFMA Regulation 13(c). Declarations were not obtained from written quotations (R2 626 605 - 2017/18).

### 47. Action taken

The Council has certified the Irregular Expenditure for the past three financial years as irrecoverable and written it off in terms of Section 32(2) of the MFMA, since the Municipality has three Departments, and thus three Senior Managers, and not forming the prescribed number of the Bid Committee members as per Section 29(2) of the SCM Regulations.

### 48. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

|                                 |           |           |
|---------------------------------|-----------|-----------|
| Current year subscription / fee | 500 960   | 483 547   |
| Amount paid - current year      | (500 960) | (483 547) |
|                                 | <b>-</b>  | <b>-</b>  |

#### Electricity distribution losses

|                             |           |           |
|-----------------------------|-----------|-----------|
| Units lost (Kilowatts)      | 1 631 275 | 2 240 730 |
| Units lost (Selling Price)  | 2 038 155 | 2 968 337 |
| Units lost (Purchase Price) | 2 469 170 | 1 921 840 |
| Units lost (Percentage)     | 9.0%      | 12,82%    |
|                             | <b>-</b>  | <b>-</b>  |

The electricity distribution losses are mainly due to aging infrastructure, technical losses and illegal connections.

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| <b>48. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>  |              |             |
| <b>Audit fees</b>  |              |             |
| Current year subscription / fee  | 2 318 286    | 2 379 248   |
| Amount paid - current year   | (2 318 286)  | (2 379 248) |
|  | -            | -           |
| <b>PAYE and UIF</b>  |              |             |
| Current year subscription / fee  | 8 845 953    | 7 391 027   |
| Amount paid - current year   | (9 513 136)  | (7 391 027) |
|  | (667 183)    | -           |
| <b>Pension and Medical Aid Deductions</b>  |              |             |
| Current year subscription / fee  | 11 054 113   | 9 833 410   |
| Amount paid - current year   | (11 902 270) | (9 833 410) |
|  | (848 157)    | -           |
| <b>VAT</b>   |              |             |
| VAT receivable   | 730 276      | 3 803 731   |
| <b>49. Deviation from supply chain management regulations</b>  |              |             |
| <b>Deviations current year (Regulation 36)</b>   |              |             |
| Emergency procurement  | 1 776 842    | 4 401 442   |
| Sole Supplier or service provider  | 98 322       | 1 558 894   |
| Impractical/impossible to follow procurement process   | 17 404 214   | 3 440 597   |
|  | 19 279 378   | 9 400 933   |
| <b>Deviations current year (Regulation 32)</b>   | 3 788 809    | 4 303 517   |
| <b>50. Other revenue</b>   |              |             |
| Other income - (rollup)  | 277 050      | 1 065 676   |
| <b>51. Interest paid</b>   |              |             |
| Interest paid - Late payments  | 341 816      | -           |
| <b>52. Events after the reporting date</b>   |              |             |
| On 29 August 2019 the Council of Mthonjaneni Local Municipality approved and certified the Irregular Expenditure amount that existed as at 30 June 2019 as irrecoverable and be written off. This resulted in an adjusting post Balance Sheet event in terms of GRAP 14. |              |             |
| The effect on the reported figure is as follows:   |              |             |
| <b>Disclosure</b>  |              |             |
| Decrease in Irregular Expenditure  | (46 178 407) | -           |

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

### 53. Budget differences

#### Material differences between budget and actual amounts

##### A - Property Rates

The Municipality expected to inherit more properties from the Ntambanana Split, but only schools were inherited and thus resulted in a low property rate billing than anticipated.

##### B - Service Charges

A negative variance between the budget and actual revenue from service charges resulted from the fact that there was a reduction in electricity consumption for the first seven months of the financial year than was anticipated.

##### C - Other Revenue

Other Revenue comprises of Rental of Facilities and Equipment, Licenses and Permits, Fines, Penalties and Forfeits and Other Income. The variance is caused by the fact that the Municipality did not issue as much licenses and permits as targeted, and this is beyond the control of the Municipality as licenses and permits depends on the number of people who needs them during the financial year.

Also the Municipality no longer have a contract with TMT who previously assisted with speed cameras and thus reducing the tickets issued on speed violation.

##### D - Depreciation and Asset Impairment

The large variance above the budget was caused by the fact that the Municipality did not dispose off any assets this financial year as was anticipated, and there were additions and capital projects completed during the financial year, hence why the depreciation for the year became very high.

##### E - Interest Paid

The Municipality did not anticipate paying any interest due to late payments and thus did not budget for it.

##### F - Materials and Bulk Purchases

The Municipality saved on other expenditure items due to adoption and implementation of Circular 82 by Council on Cost Containment Measures.

##### G - Other Expenditure

Other Expenditure comprises of Debt Impairment, Contracted Services and General Expenses. The variance is largely caused by the introduction of mSCOA which required a further classification in terms of whether the goods and services are contracted or not and other expenditure items were split amongst the relevant expenditure categories.

##### H - Transfers recognised - Capital

The variance is caused by the additional MIG funding of R4 000 000.00 that the Municipality received in March 2019.

##### J - Capital Expenditure

This is largely caused by the additinal MIG funding of R4 000 000.00, the Municipality received in March 2019 which was not anticipated and thus the expenditure thereof.